Money Shortage

The economy from the Revolution through the Civil War was uncertain and troubled. At the time of the Revolution, most of the gold and silver was owned by the British and, of course, was taken abroad during the war. Paper money, called "greenbacks", was printed during the Revolution, but there was much suspicion and distrust. The creditor feared being paid off with money that had no specie (gold and silver) to back its value. Merchants and shopkeepers felt unable to trust the value of the greenbacks. Men who were able to accumulate quantities of the notes worried about the future purchasing power of the money.

With stable money in short supply, barter became common. Land was seen as the only true source of wealth, the only way to pass one's wealth from one generation to the next. After the Revolution, the lands to the west were divided between the states and parcels were given to soldiers as payment for their services. Vast quantities of land were purchased for speculation, with considerable investment by Europeans as well as Americans.

In 1792, Alexander Hamilton established a mint in Philadelphia. Its gold and silver coins were to be the basic money of the country. Paper currency issued during the Revolution was redeemed at one cent on the dollar.

Banks were established to issue credit at an interest rate that rewarded the owners of the bank. The credit allowed the borrower to purchase land, buildings, tools, raw materials, etc., necessary to set up industries and farms or to purchase inventories and buildings in which to open shops. It allowed for an equalization of wealth.

There were 75 banks in operation in 1805 - all in the East. Alexander Hamilton proposed the establishment of a central bank as a place of deposit for government funds and as a way of transferring money from one part of the country to another. The bank would issue notes redeemable for gold or silver. It would also serve as the lender of last resort by making loans to banks that were in financial trouble.
A Tale of Twin Cities

The second bank of the United States was established and chartered for a period of 20 years with capital of $10 million, $2 million being invested by the government. Its headquarters was in Philadelphia and it had 25 branches around the land. Stock was sold, with no individual allowed to own more than 1,000 of the total of 25,000 shares. Foreign investors could own shares but could not vote them.

The bank was initially a success. Because of the government support, it was well regarded and trusted by the public. Other banks, however, began to see it as a competitor and as a master. Discipline was imposed on banks, requiring them to back notes with hard money. Resentment by the banks was then communicated to customers.

The number of state banks multiplied, with the greatest expansion occurring in the Appalachians and the West. After the War of 1812, banks outside of New England suspended specie payment. A set of discounts was established which came into effect when notes were used for buying goods or paying debts, based on where the notes had been issued. There was a 50% discount on the face value of notes issued in the West.

Nicholas Biddle became head of the Bank of the United States in 1823. The bank was then serving as a restraining force on the state banks. Payments were accepted only in notes from banks which backed them in gold and silver. Note circulation was limited.

Opposition was most severe by banks in the west with a need for easy credit. It was widely felt that the Bank of the United States exerted total control over the state banks, the country's currency, and the nation's economy. It became an important issue in the election of Andrew Jackson. Jackson was determined to end what was seen as the bank's monopoly and vetoed the renewal of the charter. In 1833 Jackson removed the government deposits from the bank, which accelerated the trend toward inflation. The bank called in its loans and credit tightened. State banks flooded the country with their notes. In the west, note issue doubled between 1833 and 1836. There was extensive land speculation, with speculators purchasing land with bank notes of little or no true value.

Four banks opened in the Northwest Territory in 1837 - in Green Bay, Milwaukee, Dubuque, and Mineral Point. Green Bay was the first. It had obtained its charter from Michigan early in 1835. It was financed by the sale of $100,000 of capital stock, which sold for $50 a share - one-tenth of the amount
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was to be paid down in specie, and the remainder was due on call of the board of directors. There were nine directors with extensive powers, including the ability to increase the amount of capital stock outstanding. The bank was permitted to issue notes in denominations of one dollar and above. The total amount of indebtedness by the bank was limited to three times the capital stock outstanding and actually paid for. Indebtedness was classified as bonds, bills, notes, and contracts.

The Bank of Wisconsin was the only bank west of Lake Michigan and it had an excellent chance of success. Business was booming. Land originally bought at $1.25 per acre sold for high resale values. Everyone wanted credit and was willing to pay high interest rates for it. The Green Bay bank was soon to have competition. The Bank of Milwaukee was opened in 1836 and shortly afterward the Miner's Bank of Dubuque and the Bank of Mineral Point opened. All three banks had identical charters. Each bank was opened with a capital investment of $200,000 at $100 per share. Each share was to be paid for at one-tenth down and the remainder on call. The banks could not go in debt in excess of 3 times the amount of capital actually paid in, nor issue bank notes of denominations under $5. There were no safeguards built into any of the charters - no provision for safety reserves or government control over printing of notes.

On July 11, 1837, Jackson issued the "Specie Circular", forbidding public land offices to accept anything but gold and silver in payment for land. An exception was made for settlers who purchased a limited quantity of land. The circular's issuance caused purchasers to withdraw specie from banks and buy less land. The banks’ loss of gold and silver reserves led to restriction of credit and bank failures. Widespread panic occurred when every bank in the country suspended specie payments. The payments were resumed in 1838, but the depression lasted until 1843.

In May, 1837, the Bank of Wisconsin was forced to suspend specie payment and never resumed redeeming notes. They did, however, continue to issue notes at a depreciated value.

In November, 1838, Governor Dodge recommended an investigation into the condition of banks in the Wisconsin Territory. He became increasingly outspoken in his attacks on paper money and banking excesses. Two legislative committees were formed to accomplish the investigation and issued their reports in January of 1839. The charter of the Green Bay bank was annulled in March.
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The bank had assets to pay only 50¢ on the dollar in the redemption of their bank notes.

The Bank of Milwaukee's charter was annulled in March, also, leaving the Bank of Mineral Point the only bank in Wisconsin. In 1841, that bank suspended specie payment and in 1842, the legislature repealed the charter. The investigation had concluded that the bank's officials were irresponsible, that its capital reserves were insufficient in amount and that it had over-reported the amount of gold and silver it had on hand.

Public reaction to the closing of the banks was severe, creating revulsion and distrust. Miners in the Mineral Point area would accept nothing but specie, or its equivalent, for their mineral.

On February 25, 1839, the legislature incorporated the State Bank of Wisconsin. It furnished the majority of the paper currency for commercial transactions. The Wisconsin Marine and Fire Insurance Company was chartered for a 25-year period, beginning business in Milwaukee in May, 1839. The charter gave the company the power to insure buildings and ships, to receive money on deposit and lend it at interest, to purchase and sell stock, mortgages and real estate. It was not, however, to be considered a bank.

The banking and bank note situation continued to worsen. States revoked bank charters and refused to authorize new ones. For almost twelve years no legal note-issuing banks existed in the upper Mississippi Valley area of Iowa, Illinois, and Wisconsin. There was widespread hostility toward banks.

The Wisconsin Marine and Fire Insurance Company started to issue "certificates of deposit" which were redeemable at all times and circulated as paper money. The notes were actually backed by funds invested by stock sold in Scotland. The company was investigated in 1843 and the charter was rescinded in 1846. The charter did not allow the issuance of bank notes, no matter what they were called by the company. The company, however, continued in business after the repeal of its charter and continued to issue certificates bearing the signatures of company officers.

Democrats, suspicious of all banks and banking, tended to favor the outlawing of all banking corporations. Harrison Reed, the editor of the Milwaukee Sentinel and a leader of the conservative contingency, favored the establishment of a national bank with branches or with state banks that could regulate the banking and currency of the country.
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By the early 1840's the depression was ending and the economy was improving. It was impossible to conduct business without an acceptable currency or credit regulations. Reliable banks were also necessary to the government as a way to extend credit where necessary to territorial governments until money arrived from the national government and to transmit funds between the various governmental agencies.

Further suspicion of banks prevented them from permanently establishing themselves in Neenah, Menasha, and the rest of Wisconsin, until the mid-1850's. This made credit hard to obtain. Large loans were uncommon and long payback periods were unheard of due to high interest rates. In 1850, John Fitzgerald of Green Bay charged 25-30% interest for the use of his capital. More common, however, were loans arranged through friends and relatives remaining in the East. These loans typically involved interest rates of 10% per year. The state legislature, in 1851, set a 12% cap on interest rates. However, those who needed money badly enough often paid more than that.

Neenah-Menasha's first bank was organized in 1855 in Neenah. Aaron and A. T. Cronkhite named their enterprise the Winnebago County Bank. It circulated bank notes and offered a liberal loan policy. By 1860, the bank had made loans totalling $77,000.

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Lynn M. Brill

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THE LAW OF NEWSPAPERS.

1. Subscribers who do not give express notice to the contrary are considered as wishing to continue their subscription.

2. If subscribers neglect or refuse to take newspapers from the office to which they are directed, they are held responsible until they have settled the bills and ordered them discontinued.

3. If subscribers remove to other places without informing the publishers, and the newspapers are sent to the former direction, they are held responsible.

4. The courts have decided that refusing to take newspapers from the office, or removing and leaving them uncalled for, is prima facie evidence of intentional fraud.

5. The U. S. Courts have also repeatedly decided that a postmaster who neglects to perform his duty of giving seasonable notice, as required by the Post Office Department, of the neglect of a person to take from the office a newspaper addressed to him, renders the postmaster liable to the publisher for the subscription price.

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Also, a large assortment of

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JONES & YALE,

Winnebago Rapids, February 23, 1856.

Advertisement of Jones & Yale General Store.